

Company Registration No. 05366823 (England and Wales)

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015



TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

COMPANY INFORMATION

Directors	Mr R Sheehan	
	Miss K O'Brien	(Appointed 2 January 2015)
	Miss J Crouch	(Appointed 18 August 2015)
	Mr D Brooking	(Appointed 26 August 2015)

Secretary	HCP Social Infrastructure (UK) Limited
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Company number	05366823
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Registered office	8 White Oak Square London Road Swanley Kent BR8 7AG
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Auditors	KPMG LLP Arlington Business Park Theale Reading RG7 4SD
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TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

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TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

The directors present the strategic report and financial statements for the year ended 31 December 2015.

Fair review of the business

On 24 May 2005, the Group entered into a PFI concession contract with North Lanarkshire Council to design, build, finance and provide services within twenty-four primary and secondary schools. The concession contract finishes on 31 March 2037.

The principal activity of the Company is that of a holding company, with investments in Transform Schools (North Lanarkshire) Limited and Transform Schools (North Lanarkshire) Funding plc.

No change in the Group's principal activities is anticipated.

Financial performance and financial position

The Group made a post-tax profit of £1,937,000 (2014: £1,903,000) for the year on a turnover of £7,799,000 (2014: £7,607,000). At the 31 December 2015 the Group had net assets of £5,461,000 (2014: £4,654,000).

Financial covenants have been met during the year and having considered the anticipated future performance and position of the Group, the directors are of the opinion that the covenants will continue to be met in the future.

The directors believe the financial asset to be recoverable over the term of the Project Agreement.

Key Performance Indicators

Financial penalties are levied by North Lanarkshire Council in the event of performance standards not being achieved according to detailed criteria set out in the Project Agreement. The deductions are passed on to the service providers but the quantum is an indication of unsatisfactory performance. During the financial year deductions of £20,000 (2014: £26,000) were levied by North Lanarkshire Council and passed onto the service providers. The directors consider this low level of deduction to be satisfactory.

The directors have modelled the anticipated financial outcome of the project across the term of the contract up to the end of the concession. The directors monitor actual performance against this anticipated performance. As discussed above the Group's performance as at 31 December 2015 against this measure was considered satisfactory.

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

Description of principal risks and uncertainties

The Group recognises that effective risk management is fundamental to achieving its business objectives in order to meet its commitments in fulfilling the PFI contract and in delivering a safe and efficient service. Risk management contributes to the success of the business by identifying opportunities and anticipating risks in order to improve business performance and fulfil the Group's contractual obligations.

Credit risk

The Group's credit risk is primarily attributable to its trade debtors, other debtors and the finance debtor, each of which arise from its sole client, North Lanarkshire Council. The credit and cash-flow risks are not considered significant as the client is a quasi governmental organisation.

For cash and short-term deposits, only independently rated counterparties with a minimum medium-term senior debt rating of at least AA from Standard & Poors and Aa2 from Moody's are accepted.

Should the ratings of existing counterparties fall below these levels, the Group and its senior lenders each have the right to require that an acceptable replacement counterparty be appointed.

Interest rate risk/inflation risk

The majority of borrowings are at fixed rate other than index-linking, and therefore no interest rate risk arises on them. Interest rate risk arises on the Group's sub-ordinated debt which is linked to 6-month LIBOR, and its cash and short-term deposits.

The majority of the Group's borrowings comprise an index-linked secured bond and an index-linked secured loan. Repayment of these loans, and meeting operational expenditure commitments, will be made from income which is itself subject to indexation. The Group thereby mitigates any exposure to movements in the retail price index.

Liquidity risk

The Group's liquidity risk is principally managed through financing the Group by means of long-term borrowings with an amortising profile that matches the expected availability of funds from the Group's operating activities.

Contractual relationships

The Group operates within a contractual relationship with its primary client, North Lanarkshire Council. Failure to perform obligations under this contract could have a direct and detrimental effect on the Company's result and could result in termination of the concession. To manage this risk the Group has regular meetings with North Lanarkshire Council including discussions on performance, project progress, future plans and customer requirements.

The Group's principal price risk exposure arises from cost inflation, to the extent that inflation differs from the index used in its unitary payment.

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

Financial risk management objectives and policies

The Group has outsourced the financial reporting function to HCP Social Infrastructure (UK) Limited (HCP). Authorities remain vested in the board members of the Group. The Board receives regular reports from HCP which specifically summarise and address the financial, contractual and commercial risks that the company is exposed to, and are pertinent to the industry in which the Group operates.

The Board also receives quarterly management accounts with explanations of variances from annual budgets and forecasts, which are in turn compared to the Financial Model, which represents the long term business plan of the Group and outlines its ability to comply with its debt obligations and covenants. Material deviations from the business plan are investigated and reported on. Supporting this process, HCP evaluates its performance under the framework of an Internal Audit and Assessment programme which sits within its own Corporate Governance framework. This process ensures that the project remains robust and viable throughout the life of the contract.

Going concern

The Group believes that future economic benefits will cover the obligations that arose from the financing of the construction of the project for North Lanarkshire Council.

The directors have also considered the ability of North Lanarkshire Council (the Council) to continue to pay the Unitary fees, due under the Concession contract, to the Group and do not consider this to be a material risk. The Group's forecasts and projections, taking into account reasonably possible counterparty performance, show the Group expects to be able to continue to operate for the full term of the concession.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

On behalf of the board



Mr R Sheehan

Director

18 April 2016

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

The directors present their annual report and financial statements for the year ended 31 December 2015.

Principal activities

On 24 May 2005, the Group entered into a PFI concession contract with North Lanarkshire Council to design, build, finance and provide services within twenty-four primary and secondary schools. The concession contract finishes on 31 March 2037.

The principal activity of the Company is that of a holding company, with investments in Transform Schools (North Lanarkshire) Limited and Transform Schools (North Lanarkshire) Funding plc.

No change in the Group's principal activities is anticipated.

Results and dividends

The results for the year are set out on page 9, which highlights a profit after tax of £1,937,000 (2014: £1,903,000).

The Directors expect the Group to continue its operations for the foreseeable future.

The Directors paid dividends of £1,131,000 in respect of the year ended 31 December 2015 (2014: £1,166,000).

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Mr R Sheehan	
Miss K O'Brien	(Appointed 2 January 2015)
Miss J Crouch	(Appointed 18 August 2015)
Mr D Brooking	(Appointed 26 August 2015)
Mr J Graham	(Resigned 26 August 2015)
Mr J Haan	(Resigned 2 January 2015)
Mr S Jones	(Resigned 18 August 2015)

Qualifying third party indemnity provisions

The company has made qualifying third party indemnity provisions for the benefit of its directors during the year. These provisions remain in force at the reporting date.

Auditors

The auditors, KPMG LLP, are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Statement of disclosure to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditors are unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditors are aware of that information.

Registered office

The Company's Registered Office is 8 White Oak Square, Swanley, Kent, BR8 7AG.

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

On behalf of the board



Mr R Sheehan

Director

18 April 2016

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and parent company financial statements in accordance with United Kingdom Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the profit or loss for that period. In preparing each of the parent company and group financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

We have audited the financial statements of Transform Schools (North Lanarkshire) Holdings Limited for the year ended 31 December 2015 set out on pages 9 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Amanda Moses
(Senior Statutory Auditor)
for and on behalf of KPMG LLP
Statutory Auditor
Chartered Accountants
Arlington Business Park
Theale
Reading
RG7 4SD

27 April 2016

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015 £'000	2014 £'000
Turnover	2	7,799	7,607
Cost of sales		(6,795)	(6,622)
Gross profit		1,004	985
Administrative expenses		(687)	(729)
Operating profit	3	317	256
Interest receivable and similar income	7	12,161	12,443
Interest payable and similar charges	8	(10,049)	(10,274)
Profit before taxation		2,429	2,425
Taxation	9	(492)	(522)
Profit for the financial year		1,937	1,903
Retained earnings at 1 January 2015		4,595	3,858
Dividends		(1,131)	(1,166)
Retained earnings at 31 December 2015		5,401	4,595

The profit and loss account has been prepared on the basis that all operations are continuing operations.

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

GROUP BALANCE SHEET

AS AT 31 DECEMBER 2015

	Notes	2015 £'000	2014 £'000
Fixed assets			
Tangible assets	11	-	2
Current assets			
Debtors falling due after one year	15	158,162	159,722
Debtors falling due within one year	15	15,349	15,444
Investments	16	13,294	-
Cash at bank and in hand		1,728	14,584
		<u>188,533</u>	<u>189,750</u>
Creditors: falling due within one year	18	<u>(11,115)</u>	<u>(10,740)</u>
Net current assets		177,418	179,010
Total assets less current liabilities		177,418	179,012
Creditors: amounts falling due after more than one year	19	(171,957)	(174,357)
Net assets		<u>5,461</u>	<u>4,655</u>
Capital and reserves			
Called up share capital	20	60	60
Profit and loss reserves		5,401	4,595
Total equity		<u>5,461</u>	<u>4,655</u>

The financial statements were approved by the board of directors and authorised for issue on 18 April 2016 and are signed on its behalf by:



Mr R Sheehan
Director

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2015

	Notes	2015 £'000	2014 £'000
Fixed assets			
Investments	12	60	60
		<u>60</u>	<u>60</u>
Capital and reserves			
Called up share capital	20	60	60
		<u>60</u>	<u>60</u>

The financial statements were approved by the board of directors and authorised for issue on 18 April 2016 and are signed on its behalf by:



Mr R Sheehan
Director

Company Registration No. 05366823

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	Share capital £'000	Profit and loss reserves £'000	Total £'000
Balance at 1 January 2014		60	-	60
Period ended 31 December 2014:				
Loss and total comprehensive income for the year		-	1,166	1,166
Dividends	10	-	(1,166)	(1,166)
Balance at 31 December 2014		60	-	60
Period ended 31 December 2015:				
Loss and total comprehensive income for the year		-	1,131	1,131
Dividends	10	-	(1,131)	(1,131)
Balance at 31 December 2015		60	-	60

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015 £'000	2014 £'000
Cash flows from operating activities			
Cash generated from operations	23	2,540	1,875
Income taxes paid		(513)	(555)
Net cash inflow from operating activities		<u>2,027</u>	<u>1,320</u>
Investing activities			
Interest received		<u>12,161</u>	<u>12,443</u>
Net cash generated from investing activities		12,161	12,443
Financing activities			
Interest paid		(5,434)	(5,649)
Repayment of bank loans		(7,185)	(7,223)
Dividends paid		<u>(1,131)</u>	<u>(1,166)</u>
Net cash used in financing activities		<u>(13,750)</u>	<u>(14,038)</u>
Net increase/(decrease) in cash and cash equivalents		438	(275)
Cash and cash equivalents at beginning of year		<u>14,584</u>	<u>14,859</u>
Cash and cash equivalents at end of year		<u><u>15,022</u></u>	<u><u>14,584</u></u>
Relating to:			
Cash at bank and in hand		1,728	14,584
Short term deposits included in current asset investments		<u><u>13,294</u></u>	<u><u>-</u></u>

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

1 Accounting policies

Company information

Transform Schools (North Lanarkshire) Holdings Limited ("the Company") is a limited company domiciled and incorporated in England and Wales. The registered office is 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

These financial statements for the year ended 31 December 2015 are the first financial statements of Transform Schools (North Lanarkshire) Holdings Limited prepared in accordance with FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland. The date of transition to FRS 102 was 1 January 2014. The reported financial position and financial performance for the previous period are not affected by the transition to FRS 102.

FRS 102 grants certain first-time adoption exemptions from the full requirements of FRS 102. The following exemption has been taken in these financial statements:

Service concession arrangements

The Group entered into its Service concession arrangement before the date of transition to this FRS. Therefore its service concession arrangements have continued to be accounted for using the same accounting policies being applied at the date of transition to this FRS.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. On first time adoption of FRS 102, the Group has not retrospectively changed its accounting under old UK GAAP for accounting estimates.

As permitted by s408 Companies Act 2006, the Company has not presented its own profit and loss account and related notes. The Company's profit for the year was £1,131,000 (2014: £1,166,000)

The results of the company, Transform Schools (North Lanarkshire) Holdings Limited are included in these consolidated financial statements. The company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the preparation and disclosure of the Cash Flow Statement and related notes.

1.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2015. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

1.3 Going concern

The directors have reviewed the cash flow forecast and taking into account reasonable possible risks in operations to the Group and the fact the obligations of the Group's sole customer are underwritten by the Secretary of State for Education they believe that the Group will be able to settle its liabilities as they fall due for the foreseeable future and therefore it is appropriate to prepare these financial statements on the going concern basis.

1.4 Turnover

Service income is recognised in accordance with the finance debtor and services income accounting policy below and excludes VAT.

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

1 Accounting policies

(Continued)

1.5 Finance debtor and services income

The Company is an operator of a PFI contract. The underlying asset is not deemed to be an asset of the Company under old UK GAAP, because the risks and rewards of ownership as set out in that Standard are deemed to lie principally with the Authority.

During the construction phase of the project, all attributable expenditure was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the finance debtor. During the operational phase income is allocated between interest receivable and the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS102 section 23. The Company recognises income in respect of the services provided as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services.

Major maintenance costs are recognised on a contractual basis and the revenue in respect of these services is recognised when these services are performed.

1.6 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

IT Equipment, Other Equipment	3 years, 10 years
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The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is recognised in the profit and loss account.

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

1 Accounting policies

(Continued)

1.7 Basic financial instruments

The Group has elected to apply the provisions of Section 11 "Basic Financial Instruments" of FRS102 to all of its financial instruments. Financial instruments are recognised in the Group's statement of financial position when the group becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset with the net amounts presented in the financial statements, when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Senior secured bonds and term loans are initially stated at the amount of the net proceeds after deduction of related issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in that period. The index-linked secured bonds and index-linked secured term loan are each valued at amortised cost, using the effective interest rate method, taking account of projected indexation across the term of the liability.

Issue costs are written off to the profit and loss account, over the term of the debt on a straight line basis.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances held in current accounts.

Investments

Current asset investments represent cash placed on deposit for a period of no longer than six months.

Restricted cash

Cash at bank and current asset investments includes £9,295,000 (2014: £8,773,000) restricted from use in the business, being held in the Group's reserve accounts under the terms of its Senior Loan facility.

1.8 Equity instruments

Equity instruments issued by the group are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the group.

1.9 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

1 Accounting policies (Continued)

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

2 Turnover and other revenue

An analysis of the group's turnover is as follows:

	2015 £'000	2014 £'000
Turnover		
Arising from the Group's principal activity	7,799	7,607
	<u> </u>	<u> </u>
Other significant revenue		
Interest income	12,161	12,443
	<u> </u>	<u> </u>

3 Operating profit

	2015 £'000	2014 £'000
Operating profit for the year is stated after charging/(crediting):		
Depreciation of owned tangible fixed assets	2	2
	<u> </u>	<u> </u>

4 Auditors' remuneration

	2015 £'000	2014 £'000
Fees payable to the company's auditor and its associates:		
For audit services		
Audit of the financial statements of the group and company	1	1
Audit of the company's subsidiaries	17	17
	<u> </u>	<u> </u>
	18	18
	<u> </u>	<u> </u>

5 Employees

There were no employees during the year (2014: none).

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

6 Directors' remuneration

	2015 £'000	2014 £'000
Sums paid to third parties for directors' services	27	32

No Director received any remuneration from the Company during the year (2014: £nil).

7 Interest receivable and similar income

	2015 £'000	2014 £'000
Interest income		
Interest on bank deposits	30	24
Interest income on finance debtor	12,131	12,419
Total income	12,161	12,443

8 Interest payable and similar charges

	2015 £'000	2014 £'000
Interest on financial liabilities measured at amortised cost:		
Interest on bank overdrafts and loans	5,906	6,078
Interest on bonds	2,221	2,284
Other finance charges	276	283
Interest on subordinated loans	1,427	1,410
Amortisation of finance arrangement costs	219	219
	10,049	10,274

9 Taxation

	2015 £'000	2014 £'000
Current tax		
UK corporation tax on profits for the current period	492	522

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

9 Taxation

(Continued)

The current tax charge for the year is in line with (2014: higher than) the standard rate of corporation tax in the UK of 20.25% (2014: 21.50%).

	2015 £'000	2014 £'000
Profit before taxation	2,429	2,425
Expected tax charge based on a corporation tax rate of 20.25%	492	521
	-	1
Tax expense for the year	492	522

The entire tax expense for the year has been recorded in the Statement of Income.

The main rate of corporation tax was reduced from 21% to 20% from 1 April 2015. A further reduction to 19% from 1 April 2017 and to 18% from 1 April 2020 was substantially enacted in the Summer Finance Bill 2015 on 26 October 2015. This will reduce the Company's future tax charge accordingly.

An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. However as this has not been substantially enacted by the date of signing these financial statements, this reduced rate has not been used in calculation future tax liabilities.

10 Dividends

	2015 £'000	2014 £'000
Dividends paid in the year	1,131	1,166
	1,131	1,166

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

11 Tangible fixed assets

Group	IT Equipment, Other Equipment
	£'000
Cost	
At 1 January 2015	23
At 31 December 2015	23
Depreciation	
At 1 January 2015	21
Depreciation charged in the year	2
At 31 December 2015	23
Carrying amount	
At 31 December 2014	2

The company had no tangible fixed assets at 31 December 2015 or 31 December 2014.

12 Fixed asset investments

	Notes	Group 2015 £'000	2014 £'000	Company 2015 £'000	2014 £'000
Investments in subsidiaries	13	-	-	60	60

13 Subsidiaries

Details of the company's subsidiaries at 31 December 2015 are as follows:

Name of undertaking and country of incorporation or residency	Nature of business	Class of shareholding	% Held Direct Indirect
Transform Schools North (North Lanarkshire) Limited	PFI Concession Company	Ordinary	100.00 -
Transform Schools (North Lanarkshire) Funding plc	Funding Company	Ordinary	99.99 -

14 Financial instruments

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

14 Financial instruments

(Continued)

The Group's financial instruments include borrowings. The main purpose of these financial instruments is to raise finance for the Transform Schools (North Lanarkshire) Group operations. The Group has not entered into derivative transactions. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments be undertaken. The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged throughout the period.

Credit risk

The Group's principal financial assets are cash and short-term deposits, trade and other receivables and the Finance debtor. The Group's credit risk is primarily attributable to its trade and other receivables and the Finance debtor. With the exception of relatively small trade receivables for activities ancillary to the PFI contracts recharged to other parties, the receivables arise from the Group's client, North Lanarkshire Council. The credit and cash flow risks are not considered significant as the client is a quasi-governmental organisation.

For cash and short-term deposits, only independently rated counterparties with a minimum medium-term senior debt rating of at least AA from Standard & Poor's and Aa2 from Moody's are accepted. The maximum exposure to credit risk is the carrying value of the financial assets in the table above.

Capital risk management

The Group manages its capital to ensure its ability to continue as a going concern. The capital structure of the Group mainly comprises equity attributable to equity holders of Transform Schools (North Lanarkshire) Holdings Limited consisting of issued ordinary share capital, reserves and retained earnings as disclosed in Notes 20 and 21, subordinated loan stock as disclosed in Notes 17 and 19, cash at bank and in hand, and borrowings as discussed in Note 19.

The Group maintains or adjusts its capital structure through incurring new subordinated debt or repaying existing borrowings.

Interest rate risk/Inflation risk

All borrowings are index linked and fixed rate. In addition, the unitary charge is index linked thus mitigating this risk. Interest rate risk arises on the Group's cash and short term deposits.

The majority of the Group's borrowings comprise an index linked secured bond and an index linked secured loan. Repayment of these loans, and meeting operational expenditure commitments, will be made from income which is itself subject to indexation. The Group hereby mitigates any exposure to movements in the retail price index.

Liquidity risk

The Group's liquidity risk is principally managed through financing the Group by means of long term borrowings with an amortising profile that matches the expected availability of funds from the Group's operating activities.

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

14 Financial instruments

(Continued)

Fair values

The fair values of the index-linked loan, index-linked bond and the subordinated debt have been calculated by discounting the expected future cash flows at prevailing interest rates. Expected future cash flows have been calculated assuming that future increases in the Retail Price Index are constant at 2.5%. The UK gilt yield curve and an assumed credit spread of 1% for the index-linked loan, 1% for the index-linked bonds and 1% for the subordinated debt, have been used as appropriate discount rates.

	2015 Book value £'000	Fair value £'000	2014 Book value £'000	Fair value £'000
Index-linked bonds	89,623	103,906	91,051	109,633
Index-linked loans	72,334	79,506	73,454	83,648
Subordinated loan stock	17,084	33,403	17,084	34,102
	<u>179,041</u>	<u>216,815</u>	<u>181,589</u>	<u>227,383</u>

15 Debtors

	Group 2015 £'000	2014 £'000	Company 2015 £'000	2014 £'000
Amounts falling due within one year:				
Trade debtors	2,303	2,320	-	-
Other debtors	12,326	12,692	-	-
Prepayments and accrued income	720	432	-	-
	<u>15,349</u>	<u>15,444</u>	<u>-</u>	<u>-</u>
Amounts falling due after one year:				
Finance debtor	<u>158,162</u>	<u>159,722</u>	<u>-</u>	<u>-</u>
Total debtors	<u>173,511</u>	<u>175,166</u>	<u>-</u>	<u>-</u>

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

16 Current asset investments

	Group 2015 £'000	2014 £'000	Company 2015 £'000	2014 £'000
Short-term cash investments	13,294	-	-	-

Current asset investments represents cash placed on deposit for a period of no longer than six months. Included within current asset investments is an amount of £9,294,000 (2014: £nil) which is restricted from use in the business, being held in the Company's reserve accounts.

17 Bank loans and overdrafts

	Group 2015 £'000	2014 £'000	Company 2015 £'000	2014 £'000
Bank loans	161,957	164,505	-	-
Other loans	17,084	17,084	-	-
	<u>179,041</u>	<u>181,589</u>	<u>-</u>	<u>-</u>
Payable within one year	7,084	7,232	-	-
Payable after one year	<u>171,957</u>	<u>174,357</u>	<u>-</u>	<u>-</u>
Amounts included above which fall due after five years:				
Payable by instalments	<u>128,873</u>	<u>144,404</u>	<u>-</u>	<u>-</u>

18 Creditors: falling due within one year

	Notes	Group 2015 £'000	2014 £'000	Company 2015 £'000	2014 £'000
Bank loans and overdrafts	17	7,084	7,232	-	-
Corporation tax payable		228	249	-	-
Other taxation and social security		441	480	-	-
Trade creditors		1,063	698	-	-
Accruals and deferred income		2,299	2,081	-	-
		<u>11,115</u>	<u>10,740</u>	<u>-</u>	<u>-</u>

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

19 Creditors: amounts falling due after more than one year

		Group 2015 £'000	2014 £'000	Company 2015 £'000	2014 £'000
	Notes				
Bank loans and overdrafts	17	171,957	174,357	-	-

Borrowings represent amounts owing by Transform Schools (North Lanarkshire) Funding plc, which is made up of the proceeds of £72,796,000, £5,850,000 and £9,150,000 index linked secured bonds, a £70,000,000 index linked loan from European Investment Bank and £17,084,000 of subordinated loan stock. The balance is stated after the deduction of amortised issue costs.

The index-linked secured bonds, which are due for payment in 2036 of £87,796,000 were created on 8 June 2005, of which £72,796,000 were issued and sold in 2005, followed by £6,211,050 (nominal value £5,850,000) of variation bonds in 2006 and a further £9,726,084 (nominal value £9,150,000) of variation bonds in 2007.

Interest on the bonds is payable semi-annually at a rate of 2.343% plus RPI indexation, commencing on 30 September 2005. Unless previously redeemed or purchased and cancelled, the bonds will mature on 31 March 2036. The principal amount outstanding of the bonds is adjusted semi-annually for RPI indexation. The indexation ratio is calculated as the RPI for the month, eight months prior to the payment date compared against the same month in the preceding year.

The index-linked bank secured term loan is from the European Investment Bank with repayments commencing March 2009 and semi-annually thereafter until September 2034. The loan bears interest at a rate of 1.95% plus RPI indexation. The bank loan has certain covenants attached. The capital amount outstanding of the loan is adjusted semi-annually for RPI indexation. The indexation ratio is calculated as the RPI for the month, eight months prior to the payment date compared against the same month in the preceding year.

The secured subordinated loan stock has been subscribed by Transform Schools (North Lanarkshire) Funding plc. The loan stock bears interest at a rate of 7.55% above the 6-month LIBOR, and is repayable in instalments between 2009 and 2033. It is secured by second fixed and floating charges over the undertaking, property, assets and rights of the Company.

The borrowings are secured by a fixed and floating charge over the whole of the Company's undertaking and assets.

20 Share capital

	Group and company	
	2015 £'000	2014 £'000
Ordinary share capital		
Authorised		
30,000 Ordinary 'A' of £1 each	30	30
30,000 Ordinary 'B' of £1 each	30	30
	<u>60</u>	<u>60</u>
Issued and fully paid		
30,000 Ordinary 'A' of £1 each	30	30
30,000 Ordinary 'B' of £1 each	30	30
	<u>60</u>	<u>60</u>

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

21 Related party transactions

At 31 December 2015, the subordinated loan stock totalled £17,083,641, divided between Equitix Education 2 Limited, £8,541,821 (2014: £8,541,821) and Innisfree Nominees Limited £8,541,820 (2014: £8,541,820) split between Innisfree PFI Secondary Fund LP (ISF) and Innisfree PFI Secondary Fund 2 LP (ISF2) in the ratio 16% to 34% respectively.

Subordinated debt interest accrued at 31 December 2015 totalled £364,396 (2014: £360,364), divided between Equitix Education 2 Limited for £182,198 and Innisfree Nominees Limited for £182,198 split between ISF and ISF2 in the ratio noted above.

Amounts payable by the Company's subsidiary to Equitix Education 2 Limited for the services of the directors of Group companies during the year totalled £14,000 (2014: £16,000), of which £1,000 (2014: £1,000) was outstanding at the year end.

Amounts payable by the Company's subsidiary to Innisfree Limited for the services of the directors of Group companies during the year totalled £14,000 (2014: £16,000), of which £1,000 (2014: £1,000) was outstanding at the year end.

During the year, the Company's subsidiary paid management fees amounting to £211,000 (2014: £207,000) to HCP Social Infrastructure (UK) Limited under a management services agreement. HCP is beneficially owned by Innisfree M&G PPP LP and is therefore a related party to Innisfree Limited, which is a nominee shareholder of the Transform Schools (North Lanarkshire) group.

22 Controlling party

The ultimate parent undertakings of Transform Schools (North Lanarkshire) Holdings Ltd are Equitix Education 2 and two limited partnerships, Innisfree PFI Secondary Fund and Innisfree PFI Secondary Fund 2 LP, managed by Innisfree Limited. The Company has no ultimate controlling party.

23 Cash generated from operations

	2015 £'000	2014 £'000
Profit for the year	1,937	1,903
Adjustments for:		
Income tax expense recognised in profit or loss	492	522
Finance costs recognised in profit or loss	10,049	10,274
Interest income recognised in profit or loss	(12,161)	(12,443)
Depreciation and impairment of tangible fixed assets	2	2
Movements in working capital:		
Decrease in debtors	1,655	1,459
Increase in creditors	566	158
Cash generated from operations	2,540	1,875